

**SOUTH CAROLINA  
COMMISSION ON INDIGENT DEFENSE**

**COLUMBIA, SOUTH CAROLINA**

**STATE AUDITOR'S REPORT**

**JUNE 30, 1998**

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## INDEPENDENT ACCOUNTANT'S REPORT ON APPLYING AGREED-UPON PROCEDURES

July 1, 1999

The Honorable James H. Hodges, Governor  
and  
Members of the Commission  
South Carolina Commission on Indigent Defense  
Columbia, South Carolina

We have performed the procedures described below, which were agreed to by the governing body and management of the South Carolina Commission on Indigent Defense, solely to assist you in evaluating the performance of the Commission for the fiscal year ended June 30, 1998, in the areas addressed. This engagement to apply agreed-upon procedures was performed in accordance with standards established by the American Institute of Certified Public Accountants. The sufficiency of the procedures is solely the responsibility of the specified users of the report. Consequently, we make no representation regarding the sufficiency of the procedures described below either for the purpose for which this report has been requested or for any other purpose. The procedures and the associated findings are as follows:

1. We tested all recorded receipts to determine if these receipts were properly described and classified in the accounting records and internal controls over the tested receipt transactions were adequate. We compared amounts recorded in the general ledger and subsidiary ledgers to those in the State's accounting system (STARS) as reflected on the Comptroller General's reports to determine if recorded revenues were in agreement. We compared current year recorded revenues from sources other than State General Fund appropriations to those of the prior year and, using certain procedures, tested the reasonableness of collected and recorded amounts by revenue account. Our finding as a result of these procedures is presented in Revenues and Receipts in the Accountant's Comments section of this report.

The Honorable James H. Hodges, Governor  
and  
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2. We tested selected recorded non-payroll disbursements to determine if these disbursements were properly described and classified in the accounting records, were bona fide disbursements of the Commission, and were paid in conformity with State laws and regulations and if internal controls over the tested disbursement transactions were adequate. We also tested selected recorded non-payroll disbursements to determine if these disbursements were recorded in the proper fiscal year. We compared amounts recorded in the general ledger and subsidiary ledgers to various STARS reports to determine if recorded expenditures were in agreement. We compared current year expenditures to those of the prior year to determine the reasonableness of amounts paid and recorded by expenditure account. The individual transactions selected for testing were chosen randomly. Our finding as a result of these procedures is presented in Parking in the Accountant's Comments section of this report.
3. We tested selected recorded payroll disbursements to determine if the tested payroll transactions were properly described, classified, and distributed in the accounting records; persons on the payroll were bona fide employees; payroll transactions, including employee payroll deductions, were properly authorized and were in accordance with existing legal requirements; and internal controls over the tested payroll transactions were adequate. We tested selected payroll vouchers to determine if the vouchers were properly approved and if the gross payroll agreed to amounts recorded in the general ledger and in STARS. We also tested payroll transactions for all new employees to determine if internal controls over these transactions were adequate. We compared amounts recorded in the general ledger and subsidiary ledgers to various STARS reports to determine if recorded payroll and fringe benefit expenditures were in agreement. We performed other procedures such as comparing current year payroll expenditures with those of the prior year and comparing the percentage change in personal service expenditures to the percentage change in employer contributions to determine if recorded payroll and fringe benefit expenditures were reasonable by expenditure account. The individual transactions selected for testing were chosen randomly. Our finding as a result of these procedures is presented in Payroll in the Accountant's Comments section of this report.
4. We tested all recorded journal entries, operating transfers, and appropriation/cash transfers to determine if these transactions were properly described and classified in the accounting records; they agreed with the supporting documentation, were adequately documented and explained, were properly approved, and were mathematically correct; and the internal controls over these transactions were adequate. We found no exceptions as a result of the procedures.
5. We tested selected entries and monthly totals in the subsidiary records of the Commission to determine if the amounts were mathematically accurate; the numerical sequences of selected document series were complete; the selected monthly totals were accurately posted to the general ledger; and the internal controls over the tested transactions were adequate. The transactions selected

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for testing were chosen randomly. We found that inadequacies in maintenance of a general ledger and accounting system noted in the prior year's report were still present at June 30, 1998. See Section B in the Accountant's Comments section of this report regarding our finding as a result of these procedures.

6. We obtained all monthly reconciliations prepared by the Commission for the year ended June 30, 1998, and tested selected reconciliations of balances in the Commission's accounting records to those in STARS as reflected on the Comptroller General's reports to determine if they were accurate and complete. For the selected reconciliations, we recalculated the amounts, agreed the applicable amounts to the Commission's general ledger, agreed the applicable amounts to the STARS reports, determined if reconciling differences were adequately explained and properly resolved, and determined if necessary adjusting entries were made in the Commission's accounting records and/or in STARS. The reconciliations selected for testing were chosen randomly. We found that deficiencies in reconciliation procedures noted in the prior year's report were still present at June 30, 1998. See Section B in the Accountant's Comments section of this report regarding our finding as a result of these procedures.
7. We tested the Commission's compliance with all applicable financial provisions of the South Carolina Code of Laws, Appropriation Act, and other laws, rules, and regulations for fiscal year 1998. Our findings as a result of these procedures are described in procedures 1, 2, 3, 5, 6, 8, and 9.
8. We reviewed the status of the deficiencies described in the findings reported in the Accountant's Comments section of the State Auditor's Report on the Commission resulting from our engagement for the fiscal year ended June 30, 1997, to determine if adequate corrective action has been taken. The Commission had not implemented corrective action regarding the three reported findings (Reconciliations, General Ledger, and Post Conviction Relief Case Expenditures) as of June 30, 1998, because the 1997 report was issued after June 30, 1998. See Section B in the Accountant's Comments section of this report.
9. We obtained copies of all closing packages as of and for the year ended June 30, 1998, prepared by the Commission and submitted to the State Comptroller General. We reviewed them to determine if they were prepared in accordance with the Comptroller General's GAAP Closing Procedures Manual requirements; if the amounts were reasonable; and if they agreed with the supporting workpapers and accounting records. Our findings as a result of these procedures are presented in GAAP Closing Packages in the Accountant's Comments section of this report.

The Honorable James H. Hodges, Governor  
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We were not engaged to, and did not, perform an audit, the objective of which would be the expression of an opinion on the specified areas, accounts, or items. Further, we were not engaged to express an opinion on the effectiveness of the internal control over financial reporting. Accordingly, we do not express such opinions. Had we performed additional procedures or had we conducted an audit or review of the Commission's financial statements or any part thereof, other matters might have come to our attention that would have been reported to you.

This report is intended solely for the information and use of the Governor and of the governing body and management of the Commission and is not intended to be and should not be used by anyone other than these specified parties.

Thomas L. Wagner, Jr., CPA  
State Auditor

**ACCOUNTANT'S COMMENTS**

## **SECTION A - MATERIAL WEAKNESSES AND/OR VIOLATIONS OF STATE LAWS, RULES OR REGULATIONS**

The procedures agreed to by the agency require that we plan and perform the engagement to obtain reasonable assurance about whether noncompliance with the requirements of State Laws, Rules, or Regulations occurred and whether internal accounting controls over certain transactions were adequate. Management of the entity is responsible for establishing and maintaining internal controls. A material weakness is a condition in which the design or operation of one or more of the specific internal control components does not reduce to a relatively low level the risk that errors or irregularities in amounts that would be material in relation to the financial statements may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. Therefore, the presence of a material weakness or violation will preclude management from asserting that the entity has effective internal controls.

The conditions described in this section have been identified as material weaknesses or violations of State Laws, Rules, or Regulations.



## **PAYROLL**

We tested the initial pay for both of the Commission's new employees in the fiscal year and identified errors in each resulting in a total overpayment of \$798. For the first employee, an overpayment of \$794 occurred because the Commission paid the employee for an entire pay period even though she worked only one day of it (her start date). For the second employee, the Commission calculated the first pay by using the number of hours worked in the period rather than by using a ratio of the number of days worked to the total number of days in the period, resulting in a \$4 overpayment.

Section 8-11-30 of the South Carolina Code of Laws states, "It shall be unlawful for a person: (1) to receive a salary from the State or any of its departments which is not due; or (2) employed by the State to ... pay salaries or monies that are not due."

We recommend the Commission implement procedures for calculating payroll for employees who work less than an entire pay period (e.g., employee's start date for a new hire and annual leave balance and final work date for an employee terminating employment). We also recommend that the Commission develop and implement procedures for calculating pay for partial periods using the ratio of days worked to the total number of days in the period and for independently reviewing pay computations.

## **PARKING**

During our review of the Commission's disbursement vouchers, we noted that the Commission made two payments to a lessor each month, one for office space and another for parking. Upon further investigation, we found that the Commission has been paying for parking for its employees with State General Fund appropriations. Based on our review of the

lease agreement, parking is not included with the rental of office space and is therefore an unallowable expenditure of the Commission. During fiscal year 1998, the Commission paid \$2,200 in parking rental for its employees. The Commission has been paying these expenditures since it was created in 1993.

Part 1B, Proviso 72.24. of the 1998 Appropriation Act states, "salaries paid to officers and employees of the State ... shall be in full for all services rendered, and no perquisites of office or of employment shall be allowed ... but such ... benefits shall be charged for at the prevailing local value." Furthermore, 1998 Proviso 72.32. regarding travel and subsistence provides, "No expense shall be allowed an employee either at his place of residence or at the official headquarters of the agency by which he is employed."

We recommend the Commission end its practice of paying parking rental for its employees.

### **GAAP CLOSING PACKAGES**

The Commission is required to submit GAAP (generally accepted accounting principles) closing packages to the Comptroller General's Office at the end of each fiscal year. The requirements and instructions are included in the GAAP Closing Procedures Manual (GAAP Manual). Section 1.8 of the GAAP Manual provides, "Each agency's executive director and finance director are responsible for submitting ... closing package forms ... that are:

- Accurate and completed in accordance with instructions." The Commission submitted inaccurate closing packages for compensated absences, accounts payable, and fixed assets.

#### **Compensated Absences**

The Commission used incorrect annual leave balances for all five employees when calculating its annual leave liability, two of which were calculated using the maximum annual leave allowed to be carried forward from one calendar year to the next (337.5 hours). The

errors resulted in a net understatement of the agency's annual leave liability of \$766 (understatement for two employees of \$1,726 and overstatement for three employees of \$960). GAAP Manual Section 3.17 provides guidance on the valuation of the compensated absences liability.

#### Accounts Payable

The Commission did not report any accounts payable for fiscal year 1998. However, our test work revealed that the Commission incurred expenditures for fiscal year 1998 that were not paid until fiscal year 1999. These items should have been included on the Accounts Payable Closing Package as explained in Section 3.12 of the GAAP Manual. The preparer of the closing package was unsure of what to report. The accounts payable closing package was understated \$14,938.

#### Fixed Assets

The Commission reported corrections to the prior year closing package to reduce the balance of equipment because of an increase in its capitalization limit from \$500 to \$1,000. The amount the Commission used to reduce equipment did not agree to the total of equipment valued at less than \$1,000 on the Commission's fixed assets listing as of June 30, 1997. The fixed assets closing package was overstated by \$22,362.

#### Recommendations

We recommend the Commission carefully review and follow GAAP Manual instructions for completing closing packages. The Commission should ensure that employees who complete and independently review the closing packages are properly trained and knowledgeable of GAAP and in the preparation of closing packages. Also, we recommend that the agency make appropriate adjusting entries to its 1999 fixed assets closing package to only include equipment meeting its capitalization guidelines.

## **REVENUES AND RECEIPTS**

### **Subsidiary Records**

We found two instances in which the amounts in the bank deposit ledger differed from the deposit receipts, voucher, and/or the supporting documentation in the receipt package. In one instance, the number was transposed on the ledger. In another instance, the bank teller keyed in the wrong deposit amount. Effective internal controls regarding deposits include the examination of the deposit slip (carbon copy), the deposit receipt, and supporting documentation after the deposit is made. We recommend the Commission implement the following procedures: (1) After each deposit, verify that the amount on the bank receipt matches the total on the deposit slip (the carbon copy) and all other supporting documentation and (2) verify that the amounts listed in the bank deposit ledger agree to the Comptroller General's (CG) Monthly Transaction Detail Report.

Also, the amount of interest recorded for November in fiscal year 1998 on the Commission's fines and interest schedule did not agree to the CG Revenue Transaction Analysis Report. Agency personnel keyed in the wrong interest earnings for November. Had the agency performed monthly reconciliations between its accounting records and appropriate CG reports, the errors would have been detected. Effective internal controls when posting interest amounts include the reconciliation of the Commission's spreadsheets to State Treasurer Office and/or Comptroller General monthly reports. Section 2.1.7.20 of the Statewide Accounting and Reporting System (STARS) Manual requires monthly reconciliations to be timely prepared, adequately documented, and independently reviewed; all reconciling items to be explained; and errors detected through the reconciliation process to be promptly corrected in the Commission's accounting records and/or in STARS, as appropriate. We recommend the Commission perform such reconciliations.

## Revenue Apportionment

The Commission did not have documentation available for us to perform tests to ensure compliance with state laws regarding the allocation of revenues to the Death Penalty Trial Fund (50%), Conflict Fund (15%), and other funds (35%). The Commission discontinued preparing the apportionment schedule used in prior years. Regarding fees and surcharges received by the Commission, Proviso 14.1 of Part 1B of the 1998 Appropriation Act states, “on a monthly basis, 50% must be deposited into the Death Penalty Trial Fund, 15% must be deposited into the Conflict Fund until each of these funds has received the required level of deposit, and the remaining funds each month must be apportioned among the counties’ public defender offices pursuant to Section 17-3-70. When either the Death Penalty Trial Fund or the Conflict Fund has been fully funded, the monthly revenue being set aside for that fund will be directed to the other fund until it is completely funded.” We recommend that the Commission maintain documentation of the allocations of revenue to the various funds to support its compliance with State Law.

## Deposits

We were unable to determine whether three of the Commission’s twelve receipts were deposited in a timely manner because the Commission does not record the date that checks are received. According to the check dates, it appears that the receipts were not deposited timely. Section 1 of Part 1B of the 1998 Appropriation Act states, “all general state revenues ... and all institutional and departmental revenues or collections ... must be remitted to the State Treasurer at least once each week, when practical.” We recommend that the Commission record the dates that checks are received and implement procedures to ensure that deposits are made in a timely manner.

## **SECTION B - STATUS OF PRIOR FINDINGS**

During the current engagement, we reviewed the status of corrective action taken on each of the findings reported in the Accountant's Comments section of the State Auditor's Report on the Commission for the fiscal year ended June 30, 1997, and dated July 13, 1998. That report presented three findings (Reconciliations, General Ledger, and Post-Conviction Relief Case Expenditures). In the current engagement, we determined those conditions still existed in fiscal year 1998. There were still inadequacies in maintenance of a general ledger and accounting system; deficiencies in reconciliation procedures; and continued use of Death Penalty Fund resources to pay expenditures for post - conviction relief cases.

The Commission had not implemented corrective action as of June 30, 1998, in response to our 1997 report findings because that report was issued after June 30, 1998. In response to our inquiries, we were told that the Commission has developed and implemented procedures to correct the weaknesses reported in the prior year. However, because the procedures were implemented after June 30, 1998, we did not perform tests to determine if the new procedures are operating effectively. Furthermore, we have not repeated those findings in Section A in the Accountant's Comments section of this report.

## **MANAGEMENT'S RESPONSE**



**SOUTH CAROLINA OFFICE OF INDIGENT DEFENSE**  
**Director**

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Tyre D. Lee, Jr., Esq., Executive

Lisa A. Davenport, Administrative Assistant

September 8, 1999

Thomas L. Wagner, Jr., CPA  
State Auditor  
1401 Main Street, Suite 1200  
Columbia, SC 29201

RE: Preliminary Draft of Audit Report covering Fiscal Year 1997-1998

Dear Mr. Wagner:

This letter will acknowledge receipt of the above document and will acknowledge that our review of the report has been completed. You are authorized to release the final version of this report. I am enclosing a listing of the names and addresses of our present Commissioners as you requested. This office has discussed the preliminary findings of the above audit with personnel from your office and I do not believe that it will be necessary to request a formal exit conference.

I have reviewed the Accountant's Comments in the draft and make the following responses:

1. PAYROLL: We will implement a plan to insure that payments conform to current practices. The Agency will be reimbursed the amounts overpaid.
2. PARKING: The Agency will conform to the recommendations made in this draft. However, I should point out that both myself and members of my staff believe that this issue was examined in previous audits and not excepted to during those audits.
3. GAPP CLOSING PACKAGES: The Agency will follow the recommendations made in the Draft Report.
4. REVENUES AND RECEIPTS: The Agency will follow the recommendations made in the Draft Report. The Agency intends to purchase an accounting package which hopefully will eliminate some of the problems encountered.

As I stated above, I am also including a listing of the present Commissioners with their mailing addresses. Please note that there is a vacancy for the position of Chairman. Harry A. Dest, the Commissioner from the Fifth Congressional District is the acting Chair. Also, a successor has not been appointed for the Honorable L. Ross Hall, the former Commissioner from the Sixth



*Wagner, Jr., Thomas L., State Auditor*

*RE: Preliminary Draft of Audit Report covering Fiscal Year 1997-1998*

*Date: September 8, 1999*

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Congressional District. Ms. Hall is no longer a Public Defender nor a resident of South Carolina. Mr. Dest has been nominated as Chairman and is acting in that capacity until such time as the Governor fills that appointment.

If you have any questions, please feel free to contact me.

With best regards, I remain

Very truly yours,

Tyre D. Lee, Jr.  
Executive Director

TDL/cp

Enclosure:

List of Commissioners